III. Charting new pathways for post-pandemic trade and development

104. The various fractures in the global economy, and their reflection in growing inequality and the disconnect between financial markets and real economic activity, combined with environmental degradation and the accumulated shortfalls in attaining the Sustainable Development Goals, imply that the COVID-19 pandemic could hardly have come at a worse moment. However, rather than reconciling themselves to concentrate policies on adapting to a supposedly unmodifiable global system, it is how policymakers shape the process of globalization that will determine whether the integration of developing countries into the world economy occurs in a gainful way even in the face of health pandemics.

105. The implications for UNCTAD are clear. Guided by the Nairobi Maafikiano, UNCTAD must promote government policies that combat the current global recession and, at the same time, meaningfully reduce developing countries' vulnerabilities to potential future pandemics or other global shocks and purposefully contribute to the 2030 Agenda for Sustainable Development.

106. Such policies must go beyond building resilience to potential future shocks. They must be of a more active nature. Aimed at addressing the weaknesses of globalization, they must facilitate a virtuous integration of developing countries into the global economy and strengthen sustained progress in building transformative productive capacities, based on an enabling economic environment at all levels.[31] The 2030 Agenda set the objectives, and the Nairobi Maafikiano provided the actions.

107. This chapter addresses the direction of travel towards an action agenda focused on these objectives. Three overarching themes are suggested to define this action agenda: (a) reducing inequality and vulnerability by harnessing the development benefits from existing and emerging structural changes to international production; (b) building wealth while respecting planetary boundaries; and (c) improving the fiscal space and access to international liquidity of developing countries, to finance achieving the Sustainable Development Goals and avoid that the COVID-19 crisis further derails progress on the 2030 Agenda and causes another lost decade for developing countries.

[31] Cross-country evidence from the UNCTAD productive capacity index indicates that least developed countries score lowest, but that other developing countries also stay significantly below the score achieved by developed countries. For detailed evidence and discussion, see UNCTAD, 2020b.

A. Fostering inclusive structural transformation in a changing globalization

108. The COVID-19 pandemic has greatly influenced pre-existing changes in globalization. The sluggish recovery from the global economic and financial crisis had already slowed down global trade growth and reduced export opportunities for developing countries, and the disruption to global supply chains from the floods in Thailand and the earthquake in Japan, both in 2011, had added to growing concerns about how globalized production can be combined with environmental sustainability imperatives. The pandemic has brought further changes to global production systems and international trade and investment linkages. An important element of these changes are the pandemic-related supply chain disruptions that have caused shortages of personal protective equipment and provided firms, consumers and Governments with further evidence of the risks of highly concentrated and distant production and sourcing of critical products.

109. Evidence on sectoral and national variation in the impact of the pandemic on supply chains indicate that more fragmented supply chains have been hit more and that more digitized and automated supply chains have been hit less.[32] It also illustrates that manufacturers try to reduce the vulnerability of the "just-in-time" paradigm in international production by diversifying their supplier base, bringing production closer to home and harnessing automation. Environmental and social standards, which are increasingly influencing the sustainability of production and are easier to monitor closer to home, are an additional force towards nearshoring. The effects of these economic forces on manufacturers combine with greater pressure from Governments and the public to increase national or regional autonomy in productive capacity, especially of essential (e.g. health-care related) goods and services, and will have a lasting effect on global production networks.

110. The push for greater supply chain resilience and greater autonomy in productive capacity is likely to further the downward tendency in FDI-flows to developing countries going into the expansion of physical productive assets. It may culminate in shorter, less fragmented supply chains, and a higher geographical concentration of value added.

[32] For further discussion, see Fu X, 2020, Digital transformation of global value chains and sustainable post-pandemic recovery, *Transnational Corporations*, 27(2):157–166.

111. While the changes of international production pattern will vary across industries and countries, they can be expected to fall into four trajectories:[33]

(a) The reshoring of production in higher-technology industries will help reindustrialization of developed countries but make traditional industrialization paths more difficult for developing countries and increase their concerns about premature de-industrialization;

(b) The diversification of supplier bases in highly fragmented and contact-intensive manufacturing and services activities implies increased importance of intangible assets and platform-based activities, which may reinforce supply-chain governance and make value capture more difficult for developing countries, especially those that are not able to provide the high-quality hard and soft digital infrastructure whose availability is likely to become of crucial importance for supply chain participation;

(c) The regionalization of supply chains implies a shift from a concentration of manufacturing activities on exporting a narrow sliver of the entire manufacturing process, towards broader industrial bases with better developed forward and backward linkages, which is likely to favour larger developing economies with an established industrial basis and a large net of domestic suppliers and markets;

(d) The replication of production sites, such as through an increased use of 3D-printing, will lead to a partial rebundling of activities and further enhance the importance of digital readiness for the participation in international production.

112. Taken together, these trajectories are set to further reduce cross-border investment, but to improve the resilience of global and regional supply chains by exploiting the benefits from automation and digitalization to reduce the fragmentation of supply chains and increase the share of intangibles in the production process.

113. Traditional export-oriented industrialization strategies, based on labour-cost advantages and concentrated in sectors such as apparel and footwear, are less likely to be affected by these transformations, at least until automation also becomes economically profitable in labour-intensive sectors. By contrast, these transformations are likely to complicate economic

[33] For further discussion, see UNCTAD, 2020d.

upgrading towards technologically more sophisticated activities. This will be the case especially for those economies that lack the required digital skill base and face particular challenges in mobilizing the finance required for the costly building of the productive capacities that are needed to transform the structure of their economies in line with changing globalization.

114. These challenges come on top of the need to respond to the prospects of a sustained period of slow growth in developed economies and associated lower prospects for manufactured exports from developing countries. At the same time, these transformations also provide new opportunities. Capturing these new opportunities in international production will imply a degree of rebalancing of development strategies towards a better interface between global, regional and domestic demand. Trade and digitalization will play an important role in this context.

Capturing the new opportunities in international production will imply rebalancing development strategies between global, regional and domestic demand

115. Trade was an important carrier that transmitted lockdown-related market disruptions across the globe. But trade will also be crucial in the response to the pandemic. For one, trade is indispensable for ensuring rapid distribution and equal access to COVID-19 vaccines as they become available. It will also be needed for easier and equal access to personal protective equipment in the future.

116. Trade will be instrumental for accelerating and magnifying the effect of economic recovery from the bottom of the crisis. Robust regional trade linkages can be particularly helpful in this context, not least as the pandemic-related tendency towards a regionalization of supply chains is also likely to reinforce pre-existing regional supply patterns. Network analyses show that trade for all goods and services strongly relies on three regional supply hubs, organized in Europe around Germany, in North America around the United States and in Asia around China. The preponderance of these regional links has prevailed particularly in more technology-intensive sectors, despite an increased importance in the role of China in intermediate stages with links to both the European and North American hubs.

117. From a policy perspective, this means that the accelerated tendency to increase supply chain resilience, through shorter and more regional supply chains, reinforces more general regionalization forces related to policy environments that emphasize regional integration. Regional trade integration has received a considerable boost in the Asia and the Pacific region, through the recent signing of the Regional Comprehensive Economic Partnership, which covers 2.2 billion people and almost 30 per cent of global trade.

The diversification of supplier bases and the regionalization of supply chains could also boost trade in the African Continental Free Trade Area. To seize this opportunity, participating countries will need to reinforce concerted efforts towards harmonizing their trade-related regulations and customs controls, as well as towards reducing tariffs and non-tariff barriers, and improving infrastructures and digital connectivity to lower logistics costs. There is also a strong case to augment the efforts of the African Continental Free Trade Area to strengthen the participation of industries located in the least developed countries in regional value chains, reduce vulnerability in food supply and essential goods as well as make African economies resilient to future pandemics and crises.

118. Concerning digitalization, digitized supply chains will help firms to increase transparency regarding suppliers, as well as get a better understanding of new consumer habits related to online shopping and extended hours spent at home. However, existing differences between countries in digital skills, capabilities and infrastructure imply that not all countries are equally well placed to seize the opportunities from changing international trade and investment and that these transformations are bound to further increase inequalities within and between countries.

119. The increased importance of digital technologies has been demonstrated by their crucial role in mastering the pandemic. Apart from connecting people and allowing people to continue working while containing medical and economic damage, digital technologies facilitate tracing how medical contagion expands, as well as responses and adaptations by Governments, businesses and households, including through remote working and online education facilities. Digital connectivity has also softened adverse impacts on income by allowing for shifts to electronic commerce for retail and service provision. Many of these changes in the use of digital technologies are likely to outlive the crisis.

120. At the same time, the pandemic has added urgency to bridging digital divides to avoid that insufficient digital infrastructure and connectivity further increase already existing economic fractures. For example, in the least developed countries, only one in five people use the Internet and, in most developing countries, well below 5 per cent of the population currently buy goods or services online. Lack of Internet access at home also limits the possibilities for students to be connected when schools are closed. Many developing countries also lack comprehensive and inclusive national electronic commerce (e-commerce) strategies that compound lacking up-to-date legal frameworks to increase trust in online transactions.[34]

[34] See also UNCTAD, 2019b.

121. Digitalization also enhances the tradability of services, and it has helped boost services trade, including through e-commerce. This raises the more general question as to whether the services sector could be a new path towards development. Intangible assets and their transmission through the Internet were already playing an important role in the world economy prior to the pandemic. Developing countries, such as India, the Philippines and Rwanda, have captured significant benefits from services trade for their economic development. The pandemic has further enhanced such opportunities. For example, the surge in investment in remote working, and the greater acceptance of such work relations by both employers and employees, might enlarge the potential for remote workers in poor countries to carry out basic office tasks for firms in the rich world and more trade in digital services more generally.

122. However, while new opportunities from enhanced trade of digital services undoubtedly exist, their developmental impact is less clear. Competition for online service provision at the global scale could quickly turn into a gig economy with a race to the bottom in terms of remuneration, labour standards and social protection. Tradable services that can be provided by low-skilled labour tend to provide little productivity growth, while high-skilled services tend to maximize their productivity potential when they are used as inputs to manufacturing. This may imply that services may have the greatest developmental impact when they are developed in combination with, rather than instead of, manufacturing activities.

123. Challenges to harnessing the development benefits of digitalization also arise from tendencies to monopolization. A major feature of the evolving digital economy is the rise of a few, very large global digital platforms, mainly from the United States but also from China. Platform monopolies often arise when enterprises base their business model on their capacity to extract, control and analyse data, and to enjoy network effects which make platforms more valuable the greater the number users of a platform. Such network effects make it almost impossible for competitors to scale up their activities in the same market segment. The growing importance of a few large digital platforms in the global economy during the COVID-19 pandemic is vividly illustrated by their rapidly rising stock market valuations, which vastly outperformed those of other companies between March and October 2020.

124. The dominance of a few large digital platforms is also the result of various anticompetitive practices that global digital platforms have undertaken to consolidate their market position. An important strategy has been the acquisition of existing or potential competitors. Another has been the use of their large pools of data and leveraging their intermediary role to

expand into other sectors. This has been done, for example, by using their position as a platform for buyers and sellers to obtain market information to develop their own products for offering on a priority basis on their platform, often in combination with algorithmic pricing to undercut products from other suppliers. Such expansion can also be the result of collusion between two digital platforms that cooperate in specific areas to exclude competition from other firms.

125. Collusion and anticompetitive practices of digital platforms pose new challenges for competition and antitrust policies. The goal of these policies has increasingly shifted from a concern with market structure and market behaviour, to an emphasis on maximizing consumer welfare, where harm to consumer welfare is judged as coming from unjustifiable high prices. However, in the digital economy, consumers often receive services in exchange for data, at zero nominal prices, and platforms tend to privilege scale and market-share strategies.

126. To combat monopolistic tendencies in fast-moving digital markets, there may be a need for new competition tools and ex ante regulation of dominant platforms. Existing laws and jurisdictions often imply long investigations and lengthy procedures that negatively affect even strict rulings, as they make enforcement occur after big technology companies have already wiped out their actual or potential competitors. This means that interventions should occur even before competition problems could occur.

Combating monopolistic tendencies in fast-moving digital markets requires new competition tools and ex ante regulation of dominant platforms

127. One way would be through tighter regulation of restrictive business practices, with strong monitoring and administration at the international level. Closer monitoring of vertical integration, including by adding the scope and scale of data at stake as criteria for merger control, would be another policy for strengthening competition. A further approach would be to force firms to restructure so that they cannot use their dominance in one area to harm competitors in others. Such structural separation would diminish dominant market positions and help smaller rivals to develop. Acquisitions proposed by a dominant company could be presumed to be anticompetitive until proven not to be. Large firms responsible for market concentration could also be broken up. This could be done by forcing them into joint ventures with certain majority rules designed to avoid market concentration from arising. Pre-emptive policies may be particularly attractive options for economies with nascent digitalization, including many developing countries.

B. Building wealth while respecting planetary boundaries

128. It may be ironic that it needed the economic disruptions caused by the pandemic to cut emissions of carbon dioxide and improve the quality of air, water and soils. The pandemic-linked economic slowdown is expected to cause a drop of about 7 per cent in carbon dioxide emissions this year, with the biggest drop occurring from transport. This is the strongest decline since World War Two. At the same time, atmospheric concentrations of greenhouse gases continue to rise, with the immediate reduction in emissions expected to have a negligible long-term impact on climate change.[35] A sequence of climate-related natural disasters in 2020, such as the wildfires in Australia and the United States, the record-breaking heatwave in north-eastern Siberia that accelerated the vanishing of permafrost and the ever increasing number and intensity of storms, floods and droughts, should also serve as a reminder that the climate crisis has not gone away. We must use this decade of action to achieve the radical decarbonization required to avoid disastrous global warming.

129. Decarbonization may be best understood as a process of global structural change and requires concerted efforts at building the transformative productive capacities needed to accomplish it. This implies that economic activity shifts from carbon-intensive modes of production and consumption to more climate-friendly ones. The process may cause immediate losses and costs for many at the microeconomic level. But looked at from a macroeconomic perspective, and over time, moving towards less carbon-intensive economic activities provides new economic opportunities and is likely to enhance growth in many countries. Societal acceptance of moving towards low-carbon solutions is likely to be greater if the transformation goes hand in hand with measures that help develop environmentally sound substitutes.

> Decarbonization is a process of global structural change requiring concerted efforts at building the transformative productive capacities needed to accomplish it

130. Responses to the COVID-19 pandemic offer an ideal opportunity to use stimulus and recovery measures to accelerate structural change towards a low-carbon economy. Using this opportunity requires additional public investment in activities and infrastructure in support of climate change

[35] United Nations Environmental Programme, 2020, *Emissions Gap Report 2020*, Nairobi.

mitigation, as well as support measures for the development of acquisitions of climate-friendly technologies, as well as capital and consumer goods. This poses a question about the overall objective and the right measures for moving towards a greener world.

131. Climate change is often considered an unstoppable exogenous process. Resulting feelings of vulnerability suggest that the only possible response is building resilience, such that the evolving climate crisis does not unduly affect our economies and societies. This reaction may seem natural. The countries most affected by climate change, not least small island developing States, are those that have contributed least to global warming, so that any proactive policy on their side would do little to address climate change. At the same time, there is a lack of comprehensive and multilaterally coordinated global response to this quintessential global problem. While the Paris Agreement that sets the framework for climate action is the result of a multilateral process, it sets non-binding commitments, and the voluntary targets that polluting countries adopt to reduce emissions have often remained characterized by distinctly national flavours, with little regard for the ambition of global requirements.

132. Economic arguments further feed this reaction. The drop in pollution simultaneously with the pandemic-related decline in economic activities may vindicate those who argue that growth has historically been associated with increasing carbon emissions, and that there is a trade-off between growth and climate change mitigation as the Earth's ecological limits do not permit the replication around the world of the patterns of production and consumption of the developed countries. Instead, prioritizing short-run growth could use resulting income to reduce pollution later. It could further boost economic activity by attracting polluting industries from countries with more stringent environmental standards and regulations. Short-term growth effects from climate mitigation could be particularly adverse for countries with large fossil-fuel sectors, as much-needed policies to reduce emissions in line with the Paris Agreement will inevitably depress fossil fuel demand. Such policies will also increase the risk of "stranded assets", with exploration/production/processing facilities and other infrastructure, which typically have long-term investment horizons, no longer able to earn an economic return.

133. Technological pathways towards greener economies remain highly uncertain and developing countries may have insufficient skilled labour and be unable to assume the high cost of pioneering technology. Letting others assume the sunk costs of developing green technological solutions may also be one way to force early industrializers to pay their historic debt for past pollution. The case for this argument has been strengthened by the pandemic-related worsening of public finances that make it particularly

challenging for developing countries to finance a recovery and at the same time undertake critical investment needed to embark on environmentally more sustainable development paths.

134. Nevertheless, these arguments ignore experiences from many developed and developing countries that demonstrate how reducing carbon emissions and achieving development objectives can be combined. This combination is more successful the more ongoing technological improvements and structural change towards low-carbon production and consumption outweigh increased environmental pressure from the expanding size of an economy. Where this is the case, there is no tension between the economic and environmental goals of the 2030 Agenda. Building transformative productive capacities is at the heart of climate change mitigation, not its antipode.

135. Combining economic growth and structural transformation towards a low-carbon economy is a challenge for all countries. But there is reassuring evidence pointing to higher short-term returns per dollar spent in green, compared to conventional, fiscal stimulus.[36] And green projects can generate more employment because expanding low-carbon sectors, such as renewable energy, retrofitting of buildings, electric car production and the services sector, are typically more labour intensive than shrinking high-carbon sectors, such as fossil fuel energy, transportation and heavy manufacturing.[37]

136. Late developers may have some advantages in the transition to low-carbon activities. Engaging in renewable energy early in the development process avoids the building of infrastructure that locks in carbon-intensive energy sources and associated high switching costs. Mutually supportive structural-change and low-carbon policy frameworks reduce the risk of a technological lock-in, especially where low-carbon solutions allow for easy retrofit options and ensure interoperability with existing structures. Early engagement in low-carbon solutions provides opportunities for augmenting fixed assets in power generation, transport, construction and industry that can provide and rapidly scale up advantages in international production directed towards new and expanding markets that require compliance with high standards or where consumers are willing to pay for superior environmental performance.

137. Given the fractures in the current global economy, though, the overall objective cannot just be accelerating economic growth and structural

[36] UNCTAD, 2019a.

[37] International Monetary Fund, 2020, *World Economic Outlook: A Long and Difficult Ascent*, Washington, D.C. (October).

transformation, while respecting planetary boundaries by setting incentives such that they account for environmental costs and direct economies and societies towards low-carbon-intensive paths. It is rather more complex and must ensure fairness and inclusiveness, by making green products, technologies and services affordable for large shares of the population and by allowing those working in sectors that will be phased out to have prospects in others.

138. Putting a price on emissions in the form of taxes or emissions trading systems, and thereby changing the incentive structure for producers and consumers, would seem indispensable for setting in motion a process towards establishing low-carbon economies. In addition to their immediate impact in incentive structures, the revenues available from phasing out fossil fuel subsidies and introducing carbon pricing can be spent for income support and job creation. Current low oil prices increase the feasibility of this policy option. But such measures need to be supported by targeted income support, as the least affluent parts of society are often those that spend a larger share of their income on energy and are disproportionately engaged in carbon-intensive production and transportation. Changes in the incentive structure also need to be supported by measures on the supply side. In addition to measures that increase innovation, such as making intellectual property rights and patent protection more climate-friendly, standard setting plays an important role to move structural transformation such that it respects better the nature of low-carbon objectives as a public good. Indeed, dedicating part of pandemic-related stimulus measures to a green investment stimulus could significantly accelerate investment in renewable energy generation, clean transportation and more energy-efficient buildings.

> Dedicating part of pandemic-related stimulus to green investment could accelerate renewable energy generation, clean transportation and energy-efficient construction

139. There is also a need for blue recovery and support mechanisms to sustain small island developing States and least developed countries. Urgent action is needed to improve the management of fisheries and to protect related ecosystems, while protecting labour and human rights of workers at sea and safeguarding well-being and food security for millions of people. Coastal and marine tourism will need innovative solutions to integrate health functions and ensure the safety of visitors and locals alike and to link ecotourism to heritage, restoration services and responsible fisheries. Improved traceability and compliance with sanitary measures for blue products will enable sustainable coastal and marine ecotourism.

140. Climate-specific finance instruments could facilitate these processes. Even though the availability of climate finance has increased in recent years,

it falls significantly short of the promise to mobilize $100 billion per year by 2020, as agreed at the fifteenth session of the Conference of Parties to the United Nations Framework Convention on Climate Change in Copenhagen. Estimates for 2018 – the latest year for which data are available – indicate a global amount of climate finance of $79 billion, including bilateral and multilateral public finance (attributed to developed countries), officially supported export credits and mobilized private finance.[38] Of this amount, public climate finance accounted for $62 billion in 2018, largely consistent with a projected level of $67 billion in 2020, but the COVID-19 crisis and its aftermath may have impacted the ability of some developed countries to continue providing and mobilizing climate finance.

141. One way for increasing climate finance could involve a reassessment of the current criteria used to assign official development assistance and concessional lending with a view to including environmental considerations in addition to per capita income. To avoid that debt-sustainability concerns hold back climate-change action, the more systemic use of State-contingent bonds and the inclusion of disaster clauses triggering temporary standstills of debt service payments could be considered. Stepped-up availability of finance from public development banks could also be highly relevant to the reconciliation of economic recovery and sustainable development, given the public mandates, major collective investment portfolios and countercyclical roles of these institutions.

C. Improving fiscal space and access to international liquidity for developing countries

142. Moving towards a path that promotes sustainable and inclusive structural transformation in an evolving setting of international production requires sufficient fiscal space and access to international liquidity. Alleviating fiscal constraints is particularly important for developing countries as their fiscal space is generally lower than in most advanced economies. The lack of fiscal

Alleviating fiscal constraints is important for developing countries as their fiscal space is lower than in most advanced economies

[38] Organization for Economic Cooperation and Development, 2019, *Climate Finance Provided and Mobilized by Developed Countries in 2013–2018*, OECD Publishing, Paris.

revenues has not only constrained buying of essential medicines and medical equipment to enable testing and contain the reach of the COVID-19 pandemic in populations. It has also hampered the response of Governments to the immediate economic impact of the crisis by allowing only very limited direct transfers to people and businesses whose economic activities were wiped out. We need to make sure that fiscal constraints do not also hamper financing policies that ensure economic recovery and the building of transformative productive capacities in a post-pandemic period.

143. Polices in advanced economies play an important role in this context. A demand-led, full employment strategy, based on a greater emphasis on fiscal rather than monetary policy, would provide a globally expansionary economic environment, with ensuing improved export revenues for developing countries. Such a strategy would also help bring back revenues from tourism and workers' remittances toward pre-pandemic levels.

144. But with an estimated $2 to $3 trillion near-term payment shortfall facing developing countries, significantly larger international support is indispensable. One issue concerns joint efforts by developed and developing countries to devote more resources to the recovery of stolen assets and to investment in data infrastructure and transparency, which is indispensable for the reduction of trade-related IFFs. Another issue regards improved tax collection. To complement efforts at mobilizing domestic resources, it is essential to reach international agreement on curbing tax evasion by high-wealth individuals and on containment of IFFs by reforming international corporate tax rules and practices by multinational enterprises, such that developing countries receive their fair share in corporate profits. Any such agreement must accommodate the concerns and implementation capacities of developing countries. Such agreements should also provide multilateral solutions to taxing digital activities. Their absence could see a further flourishing of unilateral action in the form of digital services taxes, with a potential further increase in trade tensions between major developed economies.

145. The most effective way of scaling up access to international liquidity by developing countries is using all parts of the development finance architecture and making it work much more effectively as a system. The International Monetary Fund, which is at the centre of the global financial safety net, has reacted rapidly. It has provided timely emergency lending to more than 80 countries, a temporary increase in annual limits on overall access to the Fund's resources

Scaling up access to international liquidity by developing countries calls for using all parts of the development finance architecture and making it work more effectively as a system by member countries and an extension of the higher access limits under its emergency facilities. At the same time, compared to past practices, the vast majority of these provisions have come with lower or no conditionality on fiscal austerity. The World Bank and regional development banks have also reacted swiftly and made more financial resources available. Yet, the relatively small size of these responses further illustrates the urgency of adequately resourcing the International Monetary Fund, including through the completion of Sixteenth General Review of Quotas and the implementation of long-awaited governance reforms, as well as alleviating constraints in the lending capacity of multilateral development banks.

146. The limited size of the pandemic-related additional liquidity provision indicates that, going forward, much more is needed. An important option is an allocation of SDRs. This would mirror the allocation of SDR 183 billion, or almost 90 per cent of the cumulative total of SDR allocations, in 2009 in response to the global economic and financial crisis. An additional allocation of about $500–600 billion could be achieved relatively easily, as it would not require parliamentary approval in some large, developed economies. Combining such a new allocation with a mechanism that allows channelling unused SDRs to vulnerable countries would ensure that the bulk of SDR allocations benefit developing countries. Another option would be better inclusion of developing countries in the currency swap agreements and repurchase facilities extended by the major central banks.

147. An increase in concessional finance through an expansion of official development assistance would also enlarge fiscal space and access to international liquidity, particularly for low-income countries that have limited access to other sources of external finance and lack a developed domestic financial market. Over the decade since the global and economic financial crisis, an additional $2 trillion would have reached developing countries had the 0.7 per cent (of global national income) official development assistance target been met by Development Assistance Committee members. Now is the time for donor countries to, finally, honour their collective commitment and deliver official development assistance to developing countries in full and unconditionally.

148. For a global financial safety net to work as a system, it would also be important to provide for a structured framework for debt treatments, capable of supporting countries to achieve debt sustainability. The Group of 20 Debt Service Suspension Initiative makes 73 countries eligible to a temporary suspension of "official sector" or Government-to-Government debt payments, but has provided some breathing space to just the 43 countries that have signed up to it. Further measures will be required, such as extending the duration of the initiative and the range of eligible countries,

as well as moving from debt moratoriums to debt relief where required. Multilateral creditors, and especially private creditors, need to assume their global social responsibility of sharing the burden in alleviating debt distress. Sovereign decisions to seek debt relief face the risk of downgrades by credit rating agencies. The creation of a global debt authority would help in coordinating and facilitating debt restructuring, and an independent credit rating agency would be further important measures that foster fair, meaningful and timely sovereign debt solutions.[39]

149. More effective measures are also needed to prevent easy money to flow to developing countries in search of higher yield. Capital controls managed on both ends, i.e. in developed and developing countries, could play an important role. The International Monetary Fund has changed its advice on restricting capital flows and is moving towards greater tolerance of ad hoc restrictions. However, to be fully effective, capital controls may well need to be included in Governments' normal policy toolkit.[40]

150. The long road to addressing pre-pandemic fractures, achieving sustained economic recovery from the pandemic, harnessing the development benefits from structural changes in international production and advancing on a sustainable development path towards achieving the 2030 Agenda faces no shortage of challenges. We need to reduce high levels of inequality and address long-standing impediments to job creation and increased investment in transformative productive capacities, while harnessing digitalization, climate change and other environmental concerns. Lack of progress on any of these fronts runs the risks not only of another lost decade for developing countries, but also of leaving a degraded planet to future generations. Sufficient, timely and effective external assistance will be crucial for developing countries to complement their diminished domestic means. Effective multilateral cooperation is more important than ever to shape our common future.

[39] For further discussion, see United Nations, 2020, External debt sustainability and development, A/75/281, New York, 30 July.

[40] UNCTAD, 2019a.